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C O N F I D E N T I A L SECTION 01 OF 02 IRAN RPO DUBAI 000006

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TAGS: ECON EIND EMIN PGOV IR
SUBJECT: IRANIAN STEEL INDUSTRY ACCORDING TO AN INSIDER

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CLASSIFIED BY: Ramin Asgard, Acting Director, Iran Regional Presence Office, Department of State.
REASON: 1.4 (d)

1.(C) Summary. Iran currently produces 7 million tons of steel annually which is enough to meet 50% of its domestic needs, said an Iranian steel insider 13 February. There are three main government production facilities and ten large private companies, he said, adding that government facilities have a competitive advantage as they do not pay taxes and their fuel and raw material costs are subsidized. Until two years ago, said the insider, Iran imported the rest of its steel needs from Russia, Ukraine and Kazakhstan; now he said 70% of Iran's steel imports come from China. He said that the government has artificially deflated steel prices in the run-up to the elections and that he expects to see price hikes after Nowruz. In general, the insider said, the demand for steel has decreased as the construction boom has slowed due to skyrocketing material and labor costs. End Summary

Domestic steel production

2.(C) IRPoff met an Iranian steel insider February 13. The insider reportedly has a steel import-export business in Dubai and he works as a steel broker in the Tehran bazaar. He said that Iran currently needs 14 million tons of steel a year; half of which is produced domestically and half of which is imported. The insider said that there are three main government steel production facilities which convert iron ore to pig iron and on to finished steel. Reportedly there are ten main private facilities; two of which produce finished steel, while the other eight produce pig iron - which is then turned to steel in other smaller facilities, he said.

3.(C) The insider said that subsidized government factories pay below cost prices for raw iron ore and fuel. He also said that the government companies do not have to pay tax, while the private facilities do. The steel trader said that all ten of the private facilities were started under the former Khatami administration when start-up industrial factories were granted business loans with 4% interest. Now, said the insider, it is virtually impossible to start a new factory - unless you have insider connections - as loan interest rates run at about 24%.

4.(C) When asked about privatization plans of the three government facilities, the steel insider said the Mobarakeh

Steel Company in Esfahan just floated 5% of its shares on the Tehran Stock Exchange the morning of February 13. The shares are worth a total of roughly $500 million said the trader. While the insider would like to purchase the shares, it is impossible for him to do so, he said. The trader claimed that private sector investors lacking strong links to key government officials remain reluctant to invest large sums in public transactions. According to the insider, such a display would invite unwanted attention to the sources and the use of their wealth. "Once you start spending hundreds of millions of dollars, people notice...Wealthy Iranians without appropriate government connections invest overseas as it is just easier," he claimed.

Steel imports

5.(C) Iran imports 7 million tons of steel annually, or half of its steel needs, said the steel trader. Until 2006, Iran imported steel from Russia, Ukraine and Kazakhstan, he said. Now, claimed the trader, 70% of Iran's steel imports come from China; with Russia and the Ukraine accounting for the other 30%. "Under pressure from the US," bemoaned the trader, "China's prices have doubled in the last two years."

6.(C) The trader said that while there are most likely close to 500 Iranians who have licenses to import steel, there are only 20 main players. One individual named Sinaiyan (NFI) controls 20% of the import trade, claimed the trader, adding that according to rumors, Sinaiyan does not pay customs duties. The trader does not know who Sinaiyan is connected to, but surmised it has to be "someone important."

Prices

7.(C) Government production facilities are forced to sell their steel at a predetermined price, claimed the trader. While domestic producers are not obligated to sell steel at the same government price, they usually can not charge much more as it is all traded together on the Tehran Stock Exchange, said the insider. The trader said that in the run-up to the March parliamentary elections, government authorities are keeping the price of steel artificially low; he expects to see a major spike in the cost after the Iranian New Year.

8.(C) While steel needs are holding steady, said the insider, demand has not grown as the construction boom has slowed. The insider said that while there is a great demand for residential dwellings, not everyone can afford to buy due to increased labor and raw material costs. The insider claimed that up until last year, construction companies could hire "good" Afghan workers for about $2 a day. Now, he said, the government has sent all the illegal Afghans home, which has pushed labor costs up for the remaining Afghans to about $20 a day.

9.(C) Comment. IRPoff met the steel insider for the first time, upon the recommendation of a long-time contact. The steel trader splits his time evenly between Iran and Dubai and said he would be happy to answer any specific questions IRPO has on the steel business.

10.(C) Comment continued. This account demonstrates that challenges facing private sector investors in Iran appear almost insurmountable at times. Not only are the odds stacked against them in the predominantly government controlled economy, it is a virtual necessity to bring in a government partner for access to investment opportunities -- further concentrating economic power in the hands of a privileged few.
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